

Econ 261  
Spring '98  
Pernecky

Pledge: "I pledge my honor that during this examination I have neither given nor received assistance, and that I have seen no dishonest work."

Pledge \_\_\_\_\_

Name \_\_\_\_\_

Final Exam

On multiple choice questions, circle the letter of the best answer.

On graphs, be sure to label all axes, curves, and equilibrium values where relevant.

The number of points each question is worth out of a total of 350 points is indicated in ( )s next to each question.

(72) 1. Many economists who have been influenced by Classical economics claim that the cause of the Great Depression was an unanticipated reduction in the money supply.

Graphically depict the impact in the short run of an unanticipated reduction in the money supply in the following diagrams, according to *Rational Expectations Theory*.

a. the Labor Market

b. the Production Function

c. the Phillips Curve

d. the Aggregate Supply/Aggregate Demand diagram

(57) 2. Graphically depict on the following diagrams the impact of this reduction in the money supply which precipitated the Great Depression, in the long run, according to *Monetarists*.

a. the Labor Market

b. the Production Function

c. the Phillips Curve

d. the Aggregate Supply/Aggregate Demand diagram

(98) 3. During the Great Depression, the government tended to pursue a loose fiscal policy, increasing government spending significantly, while the Federal Reserve Board tended to pursue a loose monetary policy, increasing the money supply substantially. Graphically depict the impact of this loose fiscal/loose monetary policy mix on the

following diagrams, according to *the Keynesian Model*. On each diagram, first show the impact of the increase in government spending, and then show the impact of the increase in the money supply.

a. the IS/LM diagram

b. the Income/Expenditure diagram (include any "kickbacks")

c. the Money Market (include any "kickbacks")

d. the Labor Market

e. the Aggregate Supply diagram

(7) 4. Which of the following is associated with Post Keynesians?

- a. natural rate of unemployment
- b. rational expectations
- c. endogenous money
- d. none of the above

(7) 5. Which of the following would support a constant growth rule to the money supply?

- a. Rational Expectations theory
- b. Post Keynesians
- c. Keynes
- d. none of the above

(7) 6. Which of the following support(s) wage and price controls as a way of controlling inflation?

- a. Monetarists
- b. Supply-Side Economics
- c. Rational Expectations theory
- d. none of the above

(7) 7. According to Real Business Cycle Theory, a positive technology shock would

- a. increase employment
- b. increase output
- c. increase the marginal product of labor
- d. all of the above

(7) 8. Which of the following presidents imposed mandatory wage and price controls?

- a. Kennedy
- b. Johnson
- c. Nixon
- d. all of the above

(7) 9. Under the assumption of exogenous money, the direction of causation among agents goes from:

- a. the Fed to banks to firms
- b. banks to firms to the Fed

- c. the Fed to firms to banks
- d. none of the above

(7) 10. According to Monetarism

- a. wages and prices are perfectly flexible
- b. workers have rational expectations
- c. the money supply is endogenous
- d. none of the above

(7) 11. According to Rational Expectations Theory, an anticipated change in the money supply would yield a short run Phillips Curve which is:

- a. downward sloping
- b. horizontal
- c. vertical
- d. downward sloping and then upward sloping

(7) 12. Which of the following is an empirically grounded criticism of the Quantity Theory of Money?

- a. velocity tends to be stable
- b. the real wage tends to be counter cyclical
- c. there is a consistent strong link between money and prices
- d. none of the above

(7) 13. Which of the following does Milton Friedman believe is unimportant in theorizing?

- a. prediction
- b. realism of assumptions
- c. logical consistency
- d. abstraction

(7) 14. Which of the following does Robert Lucas believe is important in theorizing?

- a. prediction
- b. logical consistency with neoclassical micro foundations
- c. mathematical methods
- d. all of the above

(7) 15. According to Supply Side Economics, an increase in personal income tax rates should:

- a. lower savings

- b. raise investment
- c. lower inflation
- d. none of the above

(7) 16. Which of the following is associated with New Keynesians?

- a. endogenous money
- b. adaptive expectations
- c. perfectly flexible wages and prices
- d. none of the above

(7) 17. According to the "shirking" version of efficiency wage theory, wage reductions result in lower productivity because of:

- a. the lower opportunity cost if fired
- b. lower morale
- c. increased quits
- d. a reciprocated "gift"

(25) 18. Philosophically, Classical types of models differ from Keynesian types of models concerning the stability of the private sector and the role for government. **Circle** "Classical-type" or "Keynesian-type" under each of the following statements according to which type of model can best support the statement philosophically.

a. "The projected budget surplus should be utilized on **government spending**."

Classical-type                  Keynesian-type

b. "The Federal Reserve Board should **loosen** the money supply now."

Classical-type                  Keynesian-type

(OVER)

c. "The minimum wage should be increased."

Classical-type                  Keynesian-type

d. The U.S. should continue negotiating free trade agreements."

Classical-type                  Keynesian-type

e. "Social Security should be privatized."

Classical-type

Keynesian-type

**DID YOU REMEMBER TO CONSIDER THE PLEDGE?**